



Circuit Breaker

Fact Sheet

April 2008

Circuit Breaker Overview

The Circuit Breaker cap was passed into law in 2006 and became effective statewide for owner-occupied residential property (homesteads) for property taxes payable in 2008. The current Circuit Breaker caps homestead property tax at 2% of gross assessed value. The goal of the Circuit Breaker is to provide predictability in tax bills by ensuring that Hoosiers don't pay more than a fixed percent of their property value in taxes.

With the enactment of House Enrolled Act 1001 in 2008, property owners are entitled to a Circuit Breaker "cap" on any amount of property taxes over the following percentages of the gross assessed value for property taxes payable in 2009 and 2010 and subsequent years:

| Property Class | 2009 | 2010 and after |
|--------------------------------|----------|----------------|
| • homestead | 1.5% cap | 1% cap |
| • rental property | 2.5% cap | 2% cap |
| • agricultural land | 2.5% cap | 2% cap |
| • long term care property | 2.5% cap | 2% cap |
| • nonresidential real property | 3.5% cap | 3% cap |
| • personal property | 3.5% cap | 3% cap |

How It Works

Each unit of government in the county (schools, cities, towns, etc.) adopts a budget and calculates a tax rate based upon their projected spending (subject to local spending growth caps). Those tax rates are applied to each property in the county.

Counties will then determine the Circuit Breaker cap for each property using property values annually adjusted by local assessing officials to reflect current market conditions.

In 2008, the cap is reduced by an amount that would otherwise be attributable to the school general fund. Beginning in 2009, there would be no adjustment for amounts attributable to the school general fund since the State will be paying 100% of the school general fund expenses, not the property tax. However, property tax levies that are approved by a voter-referendum would not count towards the cap.

If the total tax liability for the property exceeds the Circuit Breaker cap, the county auditor will provide a tax credit for the amount that exceeds the cap. For example, if a homestead property with a gross assessed value \$100,000 has a total tax bill of \$2,100; the county auditor would give the property owner a \$1,100 credit to reduce the tax bill to \$1,000. In this example, the credit reduces the tax liability for the property to the one percent (1%) cap of \$1,000. The credits that the Circuit Breaker provides are aimed at ensuring Hoosier taxpayers don't pay more than a fixed percent of their property's assessed value in taxes.

Frequently Asked Questions

Q: What does the Circuit Breaker mean to taxpayers?

A: The Circuit Breaker is aimed at helping Hoosiers by ensuring they don't pay more than a fixed percent of their property's gross assessed value in taxes. The Circuit Breaker became mandatory statewide for owner-occupied residential property for property taxes payable in 2008.

Q: Are the Circuit Breaker caps permanent?

A: Senate Joint Resolution 1 begins the process of adding permanent rate caps to the Indiana Constitution by 2010. This constitutional amendment must be passed a second time by the next legislature (i.e. 2009 or 2010), and then win approval of Hoosier voters in 2010.

Q: What tools will local governments have to manage the impact of the tax caps?

A: The legislation provides \$120 million for schools in 2009 and 2010 and provides an additional \$50 million to the school "rainy day" fund to ensure adequate school funding in the event of an economic downturn. Additionally, schools can ask voters for additional property tax spending via a referendum. Taxing units can appeal to the state Distressed Unit Board for temporary tax cap relief. The Local Option Income Tax is also available to lower property taxes or pay for public safety costs.

Q: What other permanent tax relief measures were included in HEA 1001?

A: In 2009, the state will assume costs that were previously paid by property tax payers, including the remaining 15% of school operating costs not currently paid by the State, child welfare levies, costs of juvenile incarceration in state facilities, state fair and forestry levies, health care for the indigent, pre-school special education levies and costs of police and fire pensions.

Q: How do exceptions to the cap regarding debt obligations affect taxpayers?

A: Debt service levies incurred prior to June 30, 2008 are not included in the cap if total levy loss for a county due to circuit breakers is at least 20%. These special accommodations affect Lake and St. Joseph counties and were provided due to their high property tax rates and heavy reliance on property taxes to fund local government services. Debt approved by voters in a referendum will also be outside the caps.

Contact Information

For more information on the circuit breaker, contact your County Auditor. A complete listing of Auditor contact information can be found online at http://www.in.gov/serv/dlqf_officials.

Additional information regarding the circuit breaker can be obtained by contacting the Indiana Department of Local Government Finance at (317) 233-9222 or online at www.in.gov/dlqf.